

VZCZCXRO1065  
RR RUEHAST RUEHCI RUEHDBU RUEHLH RUEHNEH RUEHPW  
DE RUEHBI #0316/01 2121005  
ZNR UUUUU ZZH  
R 311005Z JUL 09  
FM AMCONSUL MUMBAI  
TO RUEHC/SECSTATE WASHDC 7358  
INFO RHEHAAA/NSC WASHINGTON DC  
RUEHBI/AMCONSUL MUMBAI 2583  
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RUEFHLC/DEPT OF HOMELAND SECURITY WASHINGTON DC  
RUEAIIA/CIA WASHDC

UNCLAS SECTION 01 OF 03 MUMBAI 000316

SENSITIVE  
SIPDIS

E.O. 12958: N/A  
TAGS: [EINV](#) [EFIN](#) [ECON](#) [PHUM](#) [KDEM](#) [KWMN](#) [PTER](#) [IN](#)  
SUBJECT: MUMBAI MASALA: 2003 MUMBAI BOMBINGS, RBI KEEPS INTEREST  
RATES ON HOLD, OFFICE DEPOT, AND TRAFFICKING BUST

REF: 09 MUMBAI 305

MUMBAI 00000316 001.2 OF 003

#### [1](#)1. (U) Table of Contents:

- Three Convicted for 2003 Mumbai Bombings
- RBI Keeps Interest Rates on Hold, Expresses Concerns Over Inflation
- Successful Trafficking Bust By Navi Mumbai Police
- Global Office Equipment Supplier Office Depot Thinks Big But Will Tread Cautiously in India

Three Convicted For 2003 Mumbai Bombings

-----

[1](#)2. (U) On July 27, a special court convicted three people, Hanif Syed, his wife Fehmida, and Ashrat Ansari, of planting bombs that killed 52 people in Mumbai in 2003. The court, convened to hear cases under the Prevention of Terrorism Act (POTA), found the three guilty of planting RDX-laden bombs at the Gateway of India (a tourist destination) and Zaveri Bazar (the diamond market). According to the prosecutor, the plot was originated in Dubai by a group calling itself the Gujarat Muslim Revenge Force and claimed that the bombings were retaliation for the 2002 Gujarat riots that killed hundreds of Muslims. The prosecution built its case on the testimony of a taxi driver who unwittingly ferried the bombs to the Gateway, and miraculously survived, and an alleged co-conspirator who turned state's witness. The convicted bombers will appeal their case to the

Mumbai High Court.

RBI Keeps Interest Rates on Hold, Expresses Concerns Over  
Inflation

-----

13. (U) On July 27, in its first quarter review of monetary policy, India's central bank, the Reserve Bank of India (RBI), did not change any key interest rates, which was in line with market expectations. Since October 2008, RBI has reduced the cash reserve ratio (CRR), the percentage of deposits which must be kept with RBI, by a cumulative 400 basis points to 5.0 percent. The RBI has also reduced the repo rate, the interest rate at which RBI lends to banks, by 425 basis points to 4.75 percent, and has reduced the reverse repo rate, the interest rate RBI pays to banks for funds deposited with it, by 275 basis points to 3.25 percent. (Note: 100 basis points is the equivalent of 1 percent.) Economic observers agree that these moves have increased liquidity in the Indian banking system, especially after credit lines dried up during in the aftermath of the collapse of Lehman Brothers in September 2008, when the global financial crisis first reached India's shores.

14. (U) For the current fiscal year 2009-10, RBI left its GDP growth forecast unchanged at 6 percent. Furthermore, the central bank also stated that growth forecasts are more likely to be revised upwards than downwards. However, RBI also increased the inflation estimate to 5 percent from the earlier 4 percent estimate; it also stated that inflation could rise beyond these estimates, should GDP growth also increase. In

MUMBAI 00000316 002.2 OF 003

addition, though the RBI reiterated that it will maintain an "accommodative stance" until there are "robust signs of recovery," it also indicated that it was formulating an exit strategy to reverse the expansionary measures it undertook during the height of the financial crisis in order to stave off the threat of inflation.

15. (U) The RBI's monetary policy statement also listed what it believed to be the five biggest challenges faced by the Indian economy. The bank stated that the first and most immediate challenge is to maintain a balance between the need for ample liquidity in the system to ensure that credit lines are available, and the potential for inflation to return. The second challenge is managing record levels of government borrowing without crowding out private sector credit demand. The RBI promised to return private investment to the pre-financial crisis level of 12.9 percent of GDP; this level fell to 8.2 percent of GDP in 2008-09 due to the financial crisis. Next, the central bank also warned that the Government of India's fiscal deficit needs to be reduced. Finally, the central bank stated that in the next three to five years, India needs to improve its investment climate by initiating financial sector and governance reforms that promote financial inclusion, deepen financial markets, and strengthen financial institutions.

Successful Trafficking Bust By Navi Mumbai Police

-----

16. (SBU) International Justice Mission (IJM) reports that on

July 27, three soliciting agents and several hotel workers were arrested in Navi Mumbai for trafficking violations, and five minor girls were rescued in the operation. IJM's Field Office Director Jonathan Derby told Congenoff that they were finally successful in working on a sting with the Navi Mumbai police thanks to the openness of the new police chief and pressure from the central government urging police to work with NGOs. Previously, IJM had turned to the Central Bureau of Investigation when local police were unwilling to act on the information provided by IJM investigators (see reftel).

Global Office Equipment Supplier Office Depot Thinks Big But Will Tread Cautiously in India

-----

17. (SBU) In a meeting with Mumbai Consul General and ConGenoff, Gary Spund, the Project Director of Office Depot in India, explained that India's restrictions on foreign direct investment (FDI) in retail compelled the global provider of office products and services to form three separate companies to operate in India. For business-to-business (B2B) sales and corporate contract business, Office Depot partnered with Mukesh Ambani's Reliance Retail to acquire eOffice Planet Solutions, a \$20 million dealer of office supplies with an established network across India. Office Depot holds a 51 percent stake and Reliance Retail has the remaining 49 percent stake in this company, which will eventually be renamed Office Depot. eOffice Planet Solutions is also developing an India-wide catalogue for Office Depot products. Reliance Retail will hold a 100 percent stake and control all retail outlets selling licensed Office Depot products, as mandated by India's laws on FDI in retail. However, Spund emphasized that Office Depot will maintain operational and procedural control of each and every retail outlet selling its products. Each retail store will be 2,500 square feet, and the company plans to launch twelve pilot stores across India by the end of the year. Office Depot's third company will handle back-end support services including logistics, supply chain management, and merchandizing for all Office Depot products and services in India. Spund said that Office Depot's potential stake in this company is still being negotiated.

MUMBAI 00000316 003.2 OF 003

18. (SBU) Spund believes that FDI will be permitted in retail within the next two years. Nevertheless, he admitted that Office Depot would still prefer to enter India with a local joint venture partner even if 100 percent FDI is permitted in the retail sector. Partnering with a local who has knowledge of local conditions, operations, and procedures is critical to obtaining necessary licenses, clearances, and to do the preliminary groundwork necessary to initiate business in India, he said. Spund said that the company planned to open 350 stores selling Office Depot products within the next 7-8 years. He acknowledged that the company may slow down its expansion plans due to the economic slowdown.

19. (SBU) Spund acknowledged that Office Depot faces stiff competition for corporate customers from small, local wholesalers mainly due to the low prices these wholesalers offer. In the retail segment, Spund noted that Office Depot's main competition will be from the fabled, local "mom and pop" stores selling office products and not from its primary international competitor, Staples, who entered the Indian market in December 2007. Positioning of products within a store is central to luring customers inside the store, he explained; for example, high-tech products are the most attractive and thus

need to be positioned so that customers can see them from outside the store. Spund noted that the middle class are the main consumers of office supplies and stationery. The real challenge is to get the upper class into the store to purchase products themselves instead of sending their chauffeurs or maids. Office Depot is also developing its own private brand products for India to adapt to local Indian tastes and preferences and is also trying to re-train corporate and local customers to "buy smart." Educating the customer requires tremendous effort as organized retail is in its infancy in the country, he added. The executive also admitted that enforcing Office Depot's international code of ethics and conduct in Asia is challenging. While prohibiting the employment of child labor is relatively easy, guaranteeing fixed working hours, payment of social security benefits and hygienic and safe working conditions similar to those in the U.S. is more difficult to enforce abroad, he said.

FOLMSBEE